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Argentina

Trade Policy Monitoring

New Measures to Encourage Exports & Consumption

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Report Highlights:
Argentina has introduced a special exchange system (conversion factor) for imports of goods and services, along with related tax measures to stimulate exports and domestic consumption. As of June 20, the special exchange rate for trade is 1.0722 pesos/US dollar and will subsequently vary on a daily basis. The government has also reduced the maximum duty from 35 to 28 percent and made changes in the payment of export reimbursements (reintegros).

Includes PSD changes: No
Includes Trade Matrix: No
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New Measures to Encourage Exports and Stimulate Economy

In a surprise move, Argentina has introduced effective June 19 a special exchange rate system (called officially a conversion factor) for imports and exports of good and services (only oil, gold and mineral exports are excluded from the system), along with related tax measures to increase the competitiveness of Argentine exports (both agricultural and non-agricultural) and increase domestic consumption.

As of June 20, the convergence factor (i.e. special exchange rate) for trade is 1.0722 pesos/US dollar and will subsequently vary on a daily basis. The official exchange rate will remain at the fixed exchange rate of 1 peso to 1 US dollar that has been in place for the last 10 years.

The new measures will make exports of grains and oilseeds (including oil and meal) less expensive, while having somewhat less impact on consumer ready food products. Imports of some high value products from the US (which were hit hardest by the April tariff increase) will see little change since the current maximum duty of 35 percent will be reduced to 28 percent. Imports of agricultural products that are subject to lower duties will now be more expensive.

The special exchange rate will have a major impact on Argentine trade with Brazil. Unlike the tariff increases in April, which did not apply to imports from Brazil, the special exchange rate will be applied to trade within Mercosur. Argentine exports to Brazil will now be 7 percent less expensive, while imports from Brazil will be 7 percent more expensive.

The exact details of many of the new measures (several of which are directed at tax evasion and stimulating consumption) are not currently available, or are likely to be modified over the next few weeks, but below is a general summary of the measures that will affect agricultural exports and imports.

Special Exchange Rate: The new program establishes a special exchange rate or conversion factor that will be applied to all import and export transactions (excluding oil) as specified in Decree No. 803/01 dated 6/18/2001. The program will operate by paying exporters an adjustable reimbursement (currently known as "reintegros") that will initially be set at 7.22 cents per dollar of exports. Likewise, imports will pay a variable import tariff of the same amount. The convergence factor will be adjusted up or down daily based on the difference between the US dollar (USD) and the average value of the Euro and USD.

At an exchange rate of .86 Euro/USD, the government will apply a "conversion factor" of 7 cents on the dollar to all trade transactions. The trade measures will be paid in the same way that tariffs and "reintegros" were previously paid, with exporters receiving from the Government an additional 7 percent (in pesos) for all exports and importers paying an additional 7 percent for imports.

Under this system, the conversion factor will increase to 10 percent if the Euro falls to .80 Euro/USD, and likewise decrease to 5 percent if the Euro increases to .90 Euro/USD. The conversion factor will be eliminated if the Euro and USD reach parity (a one-to-one exchange rate), at which point the exchange rate for all transactions (both trade and non-trade) will be based on both the Euro and USD.

Export Reimbursements (Reintegros): In a related measure (Res. ME No. 220/01 dated 6/18/2001), the Government announced the elimination of all export reimbursements of 7 percent or less, with any export reimbursements that are currently above 7 percent reduced by 7 percentage points. In some cases, export reimbursements were as high as 12 percent and these will be reduced to a maximum of 5 percent.

This measure will have the largest impact on exports to non-Mercosur members, since exports within Mercosur were not previously eligible for the reimbursements. The new resolution now makes exports within Mercosur eligible for the reimbursements.

The export reimbursement (reintegro) system was set up to rebate prior stage indirect taxes (which is allowed under WTO rules), but the program was facing increasing challenges by trade partners that felt the program was providing rebates in excess of the taxes actually paid (something prohibited under WTO rules and subject to countervailing duties). The Government reportedly reduced the export reimbursements in part to avoid these commercial conflicts.

Reduction of the export reimbursements will have a relatively small impact on exports of grains and oilseeds (including oil and meal), since these products currently receive relatively small export payments. The introduction of the special exchange rate will more than compensate for the reduction in the export payments. The larger impact will be on fruits and consumer ready food products, which currently receive larger export payments. For these products, the reduction of the export reimbursements will offset a significant part of the gains from the special exchange rate.

Tariffs: The Government announced that the maximum tariff on imports from outside of Mercosur will be reduced from 35 to 28 percent (Res. ME No. 221/01 dated 6/18/2001). The tariff on many consumer goods was increased to 35 percent in April 2001 as part of an earlier adjustment program (see Gain Report AR 1031 dated 5/15/2001 for a report on the previous tariff increase). The current resolution did not reduce the tariffs on fruits (as initially expected) nor did it reduce the tariffs on products with WTO bound tariffs below 35 percent, such as pet food which is currently charged the WTO ceiling tariff of 20 percent.

Fuel Taxes: The Government will increase the tax on diesel fuel 16 percent, but will allow agricultural producers and truckers to deduct the full amount of the tax against the payment of Value Added Taxes. Part of the tax increase will be used to reduce the price of tolls on toll roads. The measure will reduce the cost of fuel for producers that currently pay taxes, since the tax was not previously deductible, and reduce the cost of transporting grain to market.

Other Taxes: The payroll contributions tax will be increased to 16 percent, but companies will be allowed to count the increase against the payment of Value Added Taxes. In a special measure for agricultural producers, tax withholdings on sales to agricultural enterprises will be reduced and the tax on interest payments will be eliminated.